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TO: Frederick J. Beaver,
Director

FROM: Health Benefit Consultant Services RFP Evaluation Committee

DATE: February 28, 2005

SUBJECT: RFP Evaluation Committee Report

Purpose: To provide a recommendation for award of a contract by the State Health Benefits Commission for health benefit consultant services pursuant to the provisions of N.J.A.C. 17:9-10.

Recommendation: The Health Benefit Consultant Services Request for Proposal (RFP) Evaluation Committee unanimously recommends that the State Health Benefits Commission award a contract effective April 1, 2005 to Aon Consulting of New Jersey, Inc. (Aon).

Justification: The Evaluation Committee (Committee) found that the bid proposals of all eight bidders were responsive to the material requirements of the RFP. The Committee concluded that the award of the contract to Aon would be in the best interest of the State Health Benefits Program. The recommended contract award involves the bypass of one lower priced responsive bid proposal, as allowed by N.J.A.C. 17:9-10.10 (f) 1, which permits the Committee to recommend the bypass of a lower priced responsive bid proposal on the basis of the technical superiority of a higher priced responsive bid proposal.

The Committee concluded that the technical superiority of Aon's bid proposal justified the bypass of Milliman Inc.'s (Milliman) lower priced bid proposal. The difference in price was less than \$4,000. With regards to technical superiority, Aon's score was 26% higher than Milliman's, a difference of 880 points. The Committee concluded this difference justified the bypass of Milliman in favor of Aon. Further, in comparing the all-inclusive hourly rates for non-recurring tasks proposed by Aon and Milliman, the Committee noted that the rates proposed by Aon were more favorable in five of the seven job title categories. The Committee found that, if both recurring and non-recurring tasks are taken into account, the cost of Aon's bid proposal should, in practice, be lower than Milliman's bid proposal.

Background

The RFP was issued by the Division of Pensions and Benefits on behalf of the State Health Benefits Commission pursuant to the provisions of N.J.A.C. 17:9-10.4 on October 4, 2004. A copy of the RFP is provided at [Tab A](#). The RFP was posted on the Division's Web site at www.state.nj.us/treasury/pensions and the Division sent letters to 54 vendors advising them of this posting. These vendors were identified from a bidders' list provided by the Division of Purchase and Property. Additionally, notice was printed in the Newark Star Ledger on October 19, 2004, advising of the RFP's posting on the Division's Web site, the date of the Optional Bidders' Conference and the date bid proposals were due.

Vendors were invited to submit questions concerning the RFP in writing before the Optional Bidders' Conference. On October 21, 2004 the Optional Bidders' Conference was conducted at 10:00 AM at the offices of the Division of Pensions and Benefits. During the Optional Bidders' Conference answers were provided to both written questions received and oral questions asked by attendees. Ten vendors attended, including the eight vendors that ultimately submitted bid proposals.

On October 29, 2004, an Addendum to the RFP was issued ([Tab B](#)). The Addendum and the referenced examples of the reports prepared by the current health benefits consultant were posted on the Division's Web site.

The Committee was appointed by the Director after the RFP was issued and before bid proposals were received. It was comprised of the following Division employees:

- Janice F. Nelson, Assistant Director, Chairperson;
- David J. Pointer, Chief, Retirement Bureau;
- Nancy J. Ronaghan, Section Supervisor, Fiscal Resources;
- Leonard Leto, Manager, SHBP Policy and Planning; and
- Jean M. Williamson, Pension Benefits Specialist I, SHBP Policy and Planning.

On November 22, 2004, Mr. Joseph Reilly, Assistant Director, Office of Professional Services, instructed the Committee on its responsibilities. The Committee was advised to bring any concerns/questions that arose during the evaluation of bid proposals to his attention. He also informed the Committee that it must agree upon the weights to be afforded to each of the five "Evaluation Criteria" contained in the "Point Score Sample Evaluation Sheet" prior to 2:00 P.M. on November 24, 2004, the date for the submission of bid proposals.

The Committee met on November 23, 2004, and established the weighting for the scoring criteria for evaluating the bid proposals. Mr. Reilly was advised of those weights the same day ([Tab C](#)).

Bid proposals were due at the Division on or before 2:00 PM, Wednesday, November 24, 2004. Eight proposals were received. The bidders were:

- Aon Consulting of New Jersey, Inc. (Aon),
- Ingenix, Inc. (Ingenix),
- Gallagher Benefit Services, Inc. (Gallagher),
- Mellon Human Resources and Investor Solutions (Mellon),
- Mercer Human Resource Consulting, Inc. (Mercer),
- Milliman, Inc. (Milliman),
- PricewaterhouseCoopers, LLP (Pricewaterhouse), and
- The Segal Company (Segal).

The list of eight bidders was posted to the Division's Web site. Mr. Reilly met with the Committee on November 29, 2004 to further instruct it on its responsibilities in the evaluation process and to distribute copies of all bid proposals.

Evaluation Process

Initial Review

The initial review of the bid proposals by the Committee was conducted to determine if the bid proposals were responsive to the material requirements of the RFP. All eight bid proposals were found to be responsive.

Identified in the initial review was the need for clarification concerning certain financial reports and/or bank references for five bidders. On January 13, 2004, the Committee requested clarification concerning bank references from Ingenix, Mellon, Mercer, Pricewaterhouse, and Segal, as well as further information concerning financial reports from Mercer and Pricewaterhouse. Each of the bidders submitted the requested information promptly.

Oral Presentations

The Committee invited all bidders to make oral presentations and provide clarification of their bid proposals. All eight bidders elected to do so and the Committee met once with each bidder for approximately 1 ½ hours. The first oral presentation commenced January 11th and the last presentation was concluded on January 25th. Mr. Reilly and all five Committee members were present for every oral presentation. Staff from the Policy and Planning Unit also attended the oral presentations to provide technical support.

Additional Assistance

The Committee consulted with several Division of Pensions and Benefits staff to obtain clarification of certain aspects of the RFP. In particular, Mr. Larry Lenahan and Ms. Maureen Ericson of the Policy and Planning Unit assisted in technical and cost analyses. Mr. Timothy Costello, Assistant Chief of the Valuation Bureau of the Department of Banking and Insurance, provided analysis of the financial capability of each bidder.

Best and Final Offer

During the oral presentations each of the eight bidders was advised that they would be provided with an opportunity to submit a best and final offer.

Letters from the Committee to each of the bidders were sent February 3, 2005 via overnight delivery and E-mail. The Committee recommended that each bidder revisit all pricing offered in its bid proposal, including the all-inclusive hourly rates for non-recurring tasks, to better its opportunity for a contract award. The Committee also provided further clarification concerning some of the tasks identified in the RFP. A generic version of the February 3, 2005 letter may be found at [Tab D](#), along with an additional clarification provided via e-mail to all bidders on February 9, 2005.

The Committee's letter also identified potential weaknesses it had perceived in each individual bidder's rates and/or technical proposals and suggested that the bidder address these areas in its best and final offer to improve its chances of a contract award.

Each bidder was advised in the February 3rd letter that if it elected not to submit a best and final offer, its bid proposal, as submitted, would be considered its best and final offer. Best and final offers were required to be submitted on or prior to 4:00 PM, February 16, 2005.

Eight bidders submitted best and final offers. One bidder, Milliman, was requested to clarify a discrepancy found between its narrative and the Revised Schedule C rates for recurring tasks, and, as a result, a typographical error was corrected in Milliman's best and final offer.

Cost and Technical Evaluations

The Committee completed cost evaluations following the receipt of the bid proposals and the best and final offers. Primary emphasis was placed on the all-inclusive rates for the recurring tasks. It is expected that these routine tasks will be performed annually. Other tasks, i.e. non-recurring tasks, which may or may not occur during the contract, will utilize the proposed all-inclusive hourly rates. The costs for non-recurring tasks are more difficult to predict because of the variability of the mix of hours and the specific job titles involved in various non-recurring tasks. The Committee therefore chose to price rank the bid proposals of the eight bidders based upon the all-inclusive rates for recurring tasks.

The initial cost evaluation for the all-inclusive rates for the recurring tasks produced the following summary:

Rates for Recurring Tasks (Initial Bids)

Rank	Name of Bidder	Total Rate for all Recurring Tasks
1	Milliman	\$ 297,910
2	Mellon	\$ 354,975
3	Ingenix	\$ 357,500
4	Gallagher	\$ 434,607
5	Aon	\$ 477,445
6	Mercer	\$ 495,000
7	Pricewaterhouse	\$ 538,103
8	Segal	\$ 635,000

Considerable movement in the price ranking of the all-inclusive rates for the recurring tasks occurred when the best and final offers were received, as indicated in the chart below:

**Rates for Recurring Tasks
(Best and Final Offers)**

Rank	Name of Bidder	Total Rate for all Recurring Tasks
1	Milliman	\$ 288,991
2	Aon	\$ 292,932
3	Mellon	\$ 308,645
4	Ingenix	\$ 312,500
5	Gallagher	\$ 352,914
6	Pricewaterhouse	\$ 395,425
7	Segal	\$ 401,000
8	Mercer	\$ 425,000

More detailed comparisons of the all-inclusive rates bid for the annual recurring tasks (initial bid proposals and best and final offers) may be found at [Tab E](#).

Following the receipt of the best and final offers the Committee completed individual technical score sheets for each bidder and then compiled aggregate scores. The maximum score possible was 5000. The technical ratings were as follows:

Technical Scores of all Bidders

Rank	Name of Bidder	Aggregate Technical Score
1	Pricewaterhouse	4280
2	Aon	4240
3	Mellon	3990
4	Segal	3400
5	Milliman	3360
6	Mercer	3270
7	Gallagher	3155
8	Ingenix	2865

Detailed aggregate scores may be at found [Tab F](#).

While Pricewaterhouse received the highest overall technical score, it ranked sixth on the cost evaluation for all-inclusive rates for the recurring tasks. Although the Committee rated Pricewaterhouse highest in technical merit, it could not justify bypassing five responsive bidders, at an annual cost of over \$100,000, in order to select Pricewaterhouse. However, the bidder with the second highest technical score, Aon, was also ranked second in cost for the annual recurring tasks at a difference of less than \$4,000 as compared to lowest priced bidder Milliman. Milliman was ranked fifth in the technical merit scoring, 880 points less than Aon, a difference of 26%.

The following chart and discussion further supports the Committee's recommendation to bypass Milliman, the lowest cost bidder.

Comparison of Aggregate Technical Scores

Evaluation Criteria	Aon	Milliman	Maximum Possible Score
1. The bidder's approach and plans in meeting the RFP's requirements.	480	370	500
2. The bidder's overall financial stability and capability to provide the services.	615	345	750
3. The bidder's documented experience in successfully completing contracts of similar size and scope.	820	720	1000
4. The qualifications and experience of the bidder's management, supervisory or other key personnel to be assigned to the Contract, with emphasis on documented experience with contracts of similar size and scope.	1050	875	1250
5. The overall ability of the bidder, as judged by the State, to satisfactorily provide all services required.	1275	1050	1500
Total	4240	3360	5000

- 1. The bidder's approach and plans in meeting the RFP's requirements.** Aon's bid proposal and best and final offer provided the most detailed approach of all bidders and demonstrated their understanding of contract requirements.
- 2. The bidder's overall financial stability and capability to provide the services.** Based upon the financial capability review provided by the Department of Banking and Insurance, Aon received a more favorable score.
- 3. The bidder's documented experience in successfully completing contracts of similar size and scope.** Aon offers one of the largest health and welfare practices in the United States, with a significant presence in New Jersey. Other public sector clients include North Carolina teachers and State employees, Ohio State Teachers' Retirement System, Pennsylvania Employees Benefit Trust Fund, Pennsylvania Public School Employees' Retirement System, Commonwealth of Virginia, State of Maryland, and the Nevada Public Employees Benefit Program. Many of these plans are similar in size and scope to the State Health Benefits Program.

4. **The qualifications and experience of the bidder's management, supervisory or other key personnel to be assigned to the Contract, with emphasis on documented experience with contracts of similar size and scope.** The depth, qualifications and experience of Aon's team as detailed in the bid proposal received a higher rating than that presented by Milliman. The Committee noted Aon's commitment to public sector consulting. They have developed the Government Human Capital Service Group which has a separate practice that concentrates on state and local governments.
5. **The overall ability of the bidder, as judged by the State, to satisfactorily provide all services required.** While the Committee believed both bidders could satisfactorily perform all required services, Aon detailed more tools and resources in their bid proposal and more clearly outlined how they would use these tools and resources for all tasks.

The Committee found the technical superiority of Aon's bid proposal as compared to Milliman's justified bypassing the lower priced Milliman bid. Further, in comparing the all-inclusive hourly rates for non-recurring tasks proposed by Aon and Milliman, the Committee found that the rates proposed by Aon were more favorable in five of the seven job title categories as follows:

**All-Inclusive Hourly Rates for Non-Recurring Tasks
(Best and Final Offers)**

	Aon	Milliman
Lead Consultant-Team Leader	\$ 352	\$ 405
Senior Benefits Underwriter	\$ 338	\$ 290
Health Benefits Actuary	\$ 347	\$ 405
Senior Consultant	\$ 338	\$ 450
Benefits Consultant	\$ 222	\$ 250
Junior Consultant	\$ 171	\$ 160
Administrative Assistant	\$ 88	\$ 95

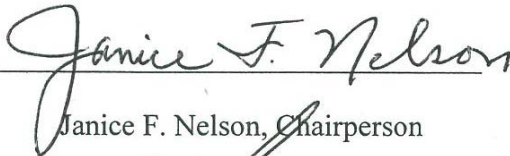
The lower rate is denoted in boldface type for each job title.

In practice, the total costs for non-recurring tasks involving all-inclusive hourly rates will vary by each task depending on the mix of hours and the specific job titles involved in the non-recurring task. To some extent, the mix will be controlled by the SHBP's contract manager, since the breakdown of hours by specific job title for the non-recurring task must be agreed to in writing by the contractor and the contract manager prior to the start of work.

Accordingly, the Committee did not attempt to estimate the mix of all-inclusive hourly rates for each non-recurring task. The Committee instead price ranked the bidders' cost proposals solely on the all-inclusive rates bid for the recurring tasks. Nonetheless, the

Committee found that, if both recurring and non-recurring tasks are taken into account, the cost of Aon's bid proposal would likely be lower than Milliman's bid proposal.

In summary, the Evaluation Committee for the Health Benefit Consultant Services RFP unanimously recommends that the State Health Benefits Commission award the contract to Aon for the reasons cited above.




Janice F. Nelson, Chairperson



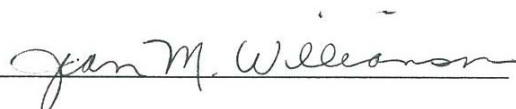
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